

ROOSEVELT DINERS
HAIL OPTIMISM OF
W. P. G. HARDING

Federal Reserve Governor
Chief Speaker at Feast
to Ex-Navy Official.

GLOOM ALL VANISHED
Banker Says All Peril of
Collapse Is Gone, as Nor-
mality Returns.

SYSTEM PROVES WORTH
Recent Vice-Presidential Nom-
inee Is Glad to See Ameri-
canism Ascending.

A note of optimism concerning the financial condition of the country was struck last night by W. P. G. Harding, governor of the Federal Reserve Bank, in an address before a group of representative business men who attended a testimonial dinner in honor of Franklin D. Roosevelt, former Assistant Secretary of the Navy, at Delmonico's.

Mr. Harding expressed the belief that the worst in the country undoubtedly is over and there no longer is danger of collapse. Externally, for the restoration of our foreign trade the establishment of actual peace is the one outstanding requisite. He denied that the Federal Reserve banks had discriminated against the agricultural interests of the country, citing figures to clinch his argument, and declared that the Federal Reserve system is now in position adequately to cope with future developments.

"I think that we can in taking inventory of our present situation congratulate ourselves upon two things," he said. "One is that the country generally has recovered to its normal state. We are no longer afraid, we are not indulging in the old idea of extravagance, or living beyond our means. Not are we troubled so much as we were a few weeks ago with that other extreme of over-pessimism where people set down in the tombs and they cannot see daylight, cannot see any hope, see nothing but gloom and darkness. Now that situation is as bad as the other. They are both abnormal conditions of mind and we can congratulate ourselves generally that the country has reached a more normal state of mind, and the main thing is for us to maintain that normal state of mind, if you please."

"I am thoroughly convinced that any danger which may have existed of a general collapse—I have never thought that danger was as imminent as a great many people have thought it was—has passed. I think undoubtedly that the worst is over."

Reserve Banks Show Values.
Mr. Harding stated with confidence and emphasis that the inherent strength of the Federal Reserve banks generally has not improved that they are not in any apprehension of their ability to care for the banking situation.

In defending the Federal Reserve system against the charges of strangulation of business, curtailment of credits and particularly the discrimination against agricultural pursuits, Mr. Harding cited comparative statistics in which the volume of credits extended for agricultural purposes through the Federal Reserve banks in 1919 had amounted to \$719,000,000, and for the first eleven months of 1920 \$1,950,000,000. The figures, he explained, represented a careful estimate from the reports of member banks, which in reality could be supplemented by the investment of many small country banks not members of the Federal Reserve system.

Mr. Roosevelt responded felicitously to the welcome which was extended when he was introduced to his guests. Recalling the history of his political campaign he said that he was glad to be returning to New York and finding it as "provincial as any other place in the United States. Provincialism is disappearing, however he added, and is being replaced by a spirit which demands thinking more and more in terms of America. "In our Government," he said, "we are beginning more and more to think less in local terms and more in American terms."

How Reserve System Won.
After reviewing in detail the early operation of the Federal Reserve system under the pressure of war expansion, Mr. Harding chose the signing of the armistice as a significant point in the operation of the Federal Reserve system. He spoke in part as follows:

"After the armistice, as you all know, there was a period of hesitation for three or four months. The Government of the United States had large unascertained liabilities at that time. Our country had gone into the war with the unalterable determination to win, regardless of cost, and had made very elaborate preparations. The armistice came at a much earlier date than had been anticipated, except for a few weeks prior to its consummation. While hostilities ended on the 11th of November, 1918, the war in a financial sense was not over for several months thereafter. Our troops had to be brought back to the United States and disbanded, supplies had to be gotten together and disposed of and the various unfunded debts had to be ascertained and arranged. So that the war could not have been said to be terminated in a financial sense until after the flotation of the Victory Loan in May, 1919.

"Following the flotation of the Victory loan, there was a tremendous demand for goods not only in this country but from all over the world, because the production of goods had been restricted during the war. It is therefore necessary in the conduct of the war, and there was a very great world shortage of many articles of ordinary commercial use, not only abroad but in this country.

"After our factories resumed their peace industries they found that there was a constantly increasing demand for their products to provide for the existing shortage and the needs of Europe, that were so great and urgent for certain necessary articles that they had to be supplied at any cost. The markets kept constantly advancing on account of this need, and in advancing markets, as you all know, there is always an active buying demand.

Seller's Market for Months.
"We had for several months what was distinctly a seller's market. Speculation became rife, and it was evident in the fall of 1919 that the country was losing its sense of proportion, that a great

many people were departing from the paths laid out by sound business judgment and that they were becoming prone to regard the abnormal conditions then existing as being more or less permanent.

"The Federal Reserve Board noted with increasing solicitude the declining tendency of the reserve and the Federal Reserve Banks were constantly extending loans and discounts to the member banks, and the increasing discounts showed this with the Federal Reserve banks. Members of the board on various occasions during the fall of 1919 issued public warnings, which had, however, only a temporary effect. In boom times a warning unaccompanied by real action has no more effect than cheering words in times of depression can have unless those words are accompanied by some real action. I remember that on September 19, 1919, the total loans and discounts of the Federal Reserve banks amounted to \$2,850,000,000. That included discounts which were secured by more obligations of the Government of the United States.

"There was during that period of three or four months thereafter a strong declining tendency noticeable in the amount of discounts held by the Federal Reserve Bank, and the increasing discounts by Government obligations. Those discounts declined from about the first of July, 1919, to the middle of January, 1920, from about \$1,800,000,000 to \$1,200,000,000. In spite of that decline of \$600,000,000, which was caused partly by the reduction of the floating debt of the Government as represented by Treasury bills, the commercial loans increased so greatly that the net increase in the loans and earnings assets of the Federal Reserve banks from September, 1919, to January 27, 1920, were nearly \$1,000,000,000, or an advance to \$3,200,000,000 in the latter part of January, 1920.

Gold Shipments Cause Change.
"The chart shows it advanced at an angle of about forty-five degrees. Now, the Federal Reserve Bank is slightly lower than it had been in January, 1919, on account of the gold which we lost when the embargo against the shipment of other countries was removed. In that condition of affairs it seemed imperative, if the integrity of the system was to be maintained and if the gold standard be preserved, that a check be placed upon expansion.

"Consequently, in the latter part of January, 1920, the directors of all the Federal Reserve banks proposed a marked advance in their discount rates, averaging in most cases 1% per cent, say from 4% to 5% per cent. The Federal Reserve Board approved these advances in discount rates. The result was that there was a tendency in the rediscount of the Federal Reserve banks to fall off for a few weeks.

"Now it is well for you to bear in mind, gentlemen, just what the Federal Reserve Bank is. It receives no primary deposits; has no dealings with the public. It deals only with the Government of the United States and with member banks. The deposits which it receives from the Government of the United States are temporary in their character and fluctuate a great deal.

"For a few days they may have large deposits for the Federal Reserve and on other days it is practically nothing with the Federal Reserve banks, so that the main reserve deposits which are carried by the Federal Reserve banks are a part of the money of the people of the country which is deposited with member banks.

"Member banks are required to carry a certain proportion of their demand deposits with the Federal Reserve Bank as their reserve. That proportion of demand deposits varies according to the classification of the cities. In 1919 central reserve cities of New York, Chicago and St. Louis the member banks must carry with the Federal Reserve Bank 13 per cent of their net demand deposits. In the ordinary reserve cities, such as Boston, Philadelphia, Cleveland, etc., they must carry 10 per cent of their net demand deposits with the Federal Reserve Bank.

"In all other banks not located in central reserve or reserve cities these banks have known as 'country banks.' They must carry 7 per cent of their net demand deposits with the Federal Reserve Bank, and all banks, regardless of the classification of their cities, are required to carry 3 per cent of their time deposits with the Federal Reserve Bank as reserve.

Not All Primary Deposits.
"So that all the funds that the Federal Reserve banks receive from member banks are not primary deposits, but are merely a part of the deposits received by the member banks, which must be carried as reserves with the Federal Reserve Bank. It is essential, therefore, that the invested assets of the Federal Reserve banks be not only sound but of a liquid character, and if possible of a self-liquidating character.

"In the spring of 1920 it became evident that loans which were being carried by member banks on collateral and for speculative purposes had created a market reduction, but that the liquidation in the agricultural sections had been nothing like so great as should have been the case.

"Now agriculture, as you know, is a seasonal operation. Loans are needed at certain seasons of the year to assist in the planting and production of the crops; they are needed at other seasons to market the crops in an orderly way. And the Federal Reserve Board has always been a strong advocate of orderly marketing, for it is self evident that if the great staple crops of the country are thrown upon the market over a very short period of time—say a few weeks—the facilities of the railroads would be so congested that the ability of the banks to finance such operations would be overstrained; that the dumping of these crops on the market in such a short space of time would result in very low prices to the producer without necessarily any corresponding benefit to the consumer, because they would fall into the hands of the middleman or the speculator, who would exact his toll."

Orderly Market Is Needed.
"Orderly marketing means so marketing that it means a gradual and steady sale and gradual and steady purchasing. Now in the spring of 1920 it became evident that marketing was not proceeding in an orderly way; that large volumes of staple agricultural products were being held back at the points of primary production. The excuse was given that the railroads were unable to furnish transportation.

"To some extent those contentions were well founded, but they were somewhat overdrawn. We became convinced, after conferring with the Interstate Commerce Commission, that the railroad situation was not altogether so bad as had been stated, and that there was in evidence a disposition on the part of some of the producers to hold their products back from the market in the hope of obtaining higher prices.

Federal Reserve Board to meet the situation were detailed at length.

Board Constantly on Job.
In continuing, Mr. Harding said: "We are fortunate in having so large and so self-contained and such a variety of resources. Now there was a great deal of mental stress undergone all during 1920. The members of the Federal Reserve Board were constantly on the job. We were in daily communication by wire with all Federal Reserve banks. We got all the reports of the various Government departments.

"We felt that we had all the statistics covering the situation not only in this country but through the entire world. We realized the gravity of the situation during 1920, and never for a moment did we lose the confidence in our behalf in the Federal Reserve system to maintain itself and to prevent any such general disaster as might have been expected in the event of the establishment of the Federal Reserve system, which we experienced periodically and which is usually concomitant with a period of readjustment.

"The process which we have undergone has shown that we can obviate this. It has been noticeable that the results of the readjustments have been for the most part very satisfactory and undisturbed and the sufferings greater in those countries where the expansion of bank currency and credit has been greater. In the United States and in the United States than anywhere else. While the reactions we have undergone have been severe and have been very trying to those who have had to endure the great stress and the privation of the cold light of statistics on paper that, after all, the reaction has not been as severe as is generally thought."

Gives Figures on Declines.
"Assuming that the prices of 1913 represented the figure 100, we find that the prices of farm products, according to the index numbers furnished by the Bureau of Labor Statistics, at their peak in 1919 were 135 per cent of the price of 1913. Foodstuffs at their peak were 213 per cent; now about 194 per cent. Textiles at their peak were 275 per cent of about 240 per cent. So when you look at those figures why, it seems that the decline has not been so violent as we have thought. At the same time, though, everything is comparative.

"Now, I think we can in taking an inventory of our present situation congratulate ourselves upon two things: One is that the country generally has recovered to its normal state. We are no longer afraid. We are not indulging in the old idea of extravagance, living beyond our means. Nor are we troubled so much as we were a few weeks ago with that other extreme of over-pessimism, where people get down in the tombs and they cannot see any daylight, cannot see any hope, see nothing but gloom and darkness.

"Now that situation is as bad as the other. They are both abnormal conditions of mind and we can congratulate ourselves generally that the country has reached a more normal state of mind, and the main thing is for us to maintain that normal state of mind, if you please.

"This is not the time to try any remedies for the ailments of the mind or deadening pain temporarily, when the ultimate effect would be not to restore the patient to health but to impair his strength and his vitality. We ought to be patient and calm, and our judgments in living and in financing ourselves.

"I am thoroughly convinced that any danger which may have existed of a general collapse—and I have never thought that danger was so imminent as a great many people have thought it was—has passed. I think undoubtedly that the worst is over. And while the Federal Reserve system cannot deal with individual cases, if they are individuals who have become overextended, that is their own fault, and we have to let it take its course. The Federal Reserve deals with general conditions. It deals with the banking situation as a whole and the Reserve position. The inherent strength of the Federal Reserve banks has so much improved that you need have no apprehension whatever that the Federal Reserve position cannot take care of the banking situation in general. It can do so and it will do so.

Signs of Trade Revival.
"As to the revival of trade, there are signs on the horizon that the extreme depression which has occurred in some industries is nearing its end. There is already a better sentiment in the wool market in Boston; and the woolen situation has been one of the worst which we have had to contend with in this country.

"There are indications that the cotton mills will soon need increased supplies of raw cotton. Another significant sign is that in North Dakota, where the farmers had been advised and had determined to hold their wheat for \$3 a bushel, the Bank of North Dakota, which is the State of North Dakota, organized by the Non-Partisan League, the farmers' organization in that State, has recently issued a circular advising all farmers that they are in a position to abandon the idea of holding their wheat for a fixed price and to turn it loose in an orderly way on the market.

"That is one of the most hopeful signs that I have seen. I think they realize that the policy they had pursued was hurting themselves and hurting their whole financial and industrial situation in the banking situation. For one thing, we brought from Canada about 50,000,000 or 60,000,000 bushels of wheat into this country that otherwise would have gone to England.

"The wheat which we brought here. We got the benefit of the premium on the American dollar in addition to the price of the wheat, and the American consumer of flour has been probably aided some Canadian wheat instead of American wheat.

"Well, the liquidation is already in evidence in the Minneapolis district. It was evidenced by the improved reserve position of that bank in the last week or so since the policy of the farmers in North Dakota has been changed.

"I have always been a great friend and promoter of the American farmer. I have sympathized with him in his problems. The members of the Federal Reserve Board are unanimous in the view that the farmer is entitled under any circumstances to a square deal, but that it is all he is entitled to. He is not entitled to any special privileges any more than any other class or any other individual. He is entitled to the special privileges at the hands of the Federal Reserve System.

which nations at one time or another have indulged.

"There should be a higher standard of business morality throughout the world. There ought not to be cancellations of orders given in good faith, and under no circumstances should there be a refusal on the part of a bank which has issued an unconditional, irrevocable letter of credit, to honor drafts drawn against that letter of credit.

"It is necessary, in order to protect our home markets, to provide credits not only for European nations needing our goods but for other nations which produce goods competing with ours, in order to enable those nations also to sell to Europe. If those credits are not provided, not only will the demand for American goods in Europe fall off but goods produced in South American countries and in Australia will be sent to this country in order to get the benefit of our cash money.

"The result will be not only an unstable surplus of American-made goods grown on American farms but also the surplus which comes here from other countries which ordinarily would go to Europe.

"Now, I have said, the first essential for the restoration of world trade is the establishment of peace throughout the world. I think it highly important also that the German reparations be determined. I understand that under the treaty they must be determined by the first of May, 1921.

Bar Against Bolshevism.
"As it stands now, while I am in no sense a German sympathizer—I am talking now just as a matter of business—central Europe has a population of about a hundred million people—in industrial, commercial people—and they are the Western bulwark against Bolshevism. The Russian situation may take years to cure itself, if it follows the analogy of the French Revolution; it may be three or four years before there are anything like stabilized conditions in Russia.

"But the nations of central Europe—our late enemies and still I believe our technical enemies in the absence of a ratification of the treaty of peace—are sadly missed in the industrial and economic life of the world. When their reparations are fixed they will know what they will have to pay; the allied Powers will know what they are to receive. All nations then can arrange their budgets and adjust their finances accordingly.

"I think the hope of American trade in the establishment of foreign finance corporations as provided in the Edge act; and yet, to be perfectly frank, that must be a very slow and gradual development, because foreign trade at the present time is accompanied with very many pitfalls and complications.

"No corporation can sell its debentures or obligations to the public that does not immediately establish a reputation for conservatism and security rather than a disposition to do business for volume without regard to security. We have a very long way to go, usually, and if and when a condition arises when the investment market of this country, which now shows signs of recovery, is strengthened and when Europe can furnish attractive securities and attractive investments to Americans, then it will be possible to re-establish our foreign trade on a broader basis.

"You all know, in this great investment centre of New York, how important the investment market is in the development of unused and outlying regions in this country. Think of the great West, how that has been built up with investments of Eastern money. Here is devastated Europe, which must be rehabilitated and reconstructed; and it can be done, not with temporary ninety day or six month bank credits, which do not fill the bill at all, but with long time credits in the shape of investments.

"Then, as they gradually build themselves up by the use of this investment money, they can restore their industries, reestablish their commerce with other nations of the world, and general world conditions will gradually work toward a more normal condition.

"Gentlemen, I appreciate very much the kind attention you have given me at this session to-night."

Those at the Dinner.
Among those present at the dinner were:

- George T. Bishop
- Byron R. Newton
- Albert B. Boardman
- P. W. Emrich
- Howard Bruce
- Adolph E. Cels
- Roland Benjamin
- Richard Owen
- Arthur Bennett
- B. F. Pope
- Spring D. Camden
- George H. Putnam
- Victor A. Cullen
- Gen. Lawrance Riggs
- John Ross DeLafield
- Frederick J. Ross
- F. N. DeLano
- George L. Radcliffe
- B. W. Dudley
- John K. Sague
- J. J. Eddy
- V. L. P. Shriver
- T. Edw. Hamilton
- Dominic Symington
- Jordan E. Hines, Jr.
- W. A. Sinnett
- Wallace F. Harvey
- E. H. Stettinius
- Judge C. M. Hough
- E. R. Tinker
- Birch Heims
- David Taylor
- Walter James Kent
- E. R. Tinker
- John W. Watson
- Lewis C. Ledyard, Jr.
- J. D. White
- Samuel McRobert
- J. G. White
- Judge M. T. Manton
- Daniel Willard
- Edgar T. Marston
- C. T. Williams
- Ludwig I. Hasvin
- Spencer Weston
- Judge J. M. Mayer
- Thomas A. Whelan
- E. G. Merrill
- John G. Vest
- Frank A. Munsey
- O. D. Young

SUMMER EGGS FROM AUSTRALIA IN CHICAGO

Sell Cheaper and More Will Be Brought In.

CHICAGO, Jan. 7.—The first shipment of eggs received in Chicago from Australia, where the hens operate under opposite weather conditions from those obtaining now in Northern United States, was placed on sale here today. Members of a local butler and egg firm said they found they could sell the eggs slightly cheaper than local receipts and a test had shown only six spoiled eggs in 150 dozen and not one was broken by the long journey. One of the firm, R. L. Elston, said he would endeavor to secure other shipments of the Australian eggs until the hens in this section get back on the job.

\$100,000,000 PACIFIC NAVY BASE CONSIDERED

Congress Committee Confers With Naval Officers.

WASHINGTON, Jan. 7.—Information regarding naval bases was given today to a joint Congressional committee by Rear Admirals Mayo and Jackson of the general board and Rear Admiral Parks, chief of the Bureau of Yards and Dock. The committee will meet again tomorrow with the three officers.

Figures regarding costs of the various Pacific coast projects including a new general naval base in San Francisco Bay, and aviation, submarine and destroyer bases were presented. The San Francisco Bay projects, it was said, will cost between \$10,000,000 and \$100,000,000, with that of Mare Island somewhat lower. If the new base is not located at Mare Island, committee members said that \$11,000,000 would be asked for the ensuing year's appropriation.

MEXICAN BANK RUNS END.

Large Sums of Money Are Being Returned to Vault.

MEXICO CITY, Jan. 7.—Leading bankers here declared today to the correspondent of the Associated Press that the backbone of the financial crisis has been broken. Their statements apparently are being borne out by the diminished lines of depositors seen before banks and also by absence of the excitement which had prevailed during the last four days.

Most of the banks reported this morning that large sums of money were being returned to their vault.

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